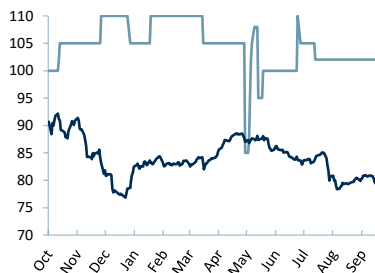


PRE-RESULTS

VALUE RANGE

GBp 125 – 131



ALSP ISD 12m Price Rel (light) Chart vs. FTSE AIM AS (dark)

Monday, 30 September 2019

Intrinsic Price	128p
Value Range Low	125p
Value Range High	131p
Implied MCAP (m)	£54.41
Implied EV (m)	£122.51
NEX Index	ALSP NEX
Financial YE	30-Apr
Currency	GBP

Business Activity

Commercial & retail property investment

Key Metrics

Close Price	102p
MCAP (m)	£43.34
Net Debt (Cash) (m)	£68.11
EV (m)	£111.45
52 Wk Hi	110p
52 Wk Lo	85p
NAV trailing	49.82p

Key Ratios

S/P premium to NAV	104.73%
% LTV ALSP adj.	56.13%
Net Debt / Shareholder	517.24%
Equity %	

Real Estate Sector Research

NEX Growth Market Index

Analyst Team

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ACE Exceeds Expectations

A record operational year delivered

ACE Liberty & Stone (ALSP ISD), a NEX growth market listed property trading company delivered impressive operational results and has beaten our estimates comfortably on many items. ACE made 8 acquisitions for £32.95m generating £2.49m in annual rentals (av. 7.6% yield) and sold Hume Ho. for a 133% capital return over 5 years. There is £8.8m of assets held for sale plus £1.9m cash and equivalents against an increase in debt of £22.2m. ACE is negotiating a GBP 10m Convertible Loan Note (CLN) extension, likely to be on new terms. The reported investment portfolio reached £79.5m vs. our £69.4m target. Revenues came in at £5.356m including disposals (part of the business model), another beat. Rental run rate now exceeds £6m p.a. There is a suggestion of a strategy change, this could weigh on our valuation.

- Rental revenue YE19A £5.072m up 44% vs. £3.515m yoy, a beat;
- Portfolio YE19A £88.3m up 52% vs. £58.2 yoy, a beat;
- Net Income YE19A £0.815m up 126% vs. £0.361k yoy, a beat;
- Disposal Hume Ho. 133% capital return over 5yrs or CAGR 18.5% p.a.;
- Weighted Average Lease 9 years and rental yield av. 5.7% and rising.

ACF est. GBP (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2019A	5,357	3,529	4,708	1.92	1.41
2020E	6,183	5,082	4,560	3.75	2.24
Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2019A	20.81x	31.58x	23.67x	53.21x	72.40x
2020E	18.02x	21.93x	24.44x	27.22x	45.54x

30/09/2019	No. of Shares	
	in issue	Fully diluted
Share Price History		
NoSh (m)	42.5	71.1
Implied Intrinsic Price	128p	77p
Value Range Low	125p	75p
Value Range High	131p	78p
NEX Growth Market	ALSP	
Financial YE	30-Apr	
Reporting Currency	GBP	
NoSh (m)		42.5
NoSh (m) expected dilution (Exp D)		71.1
NoSh (m) full dilution (FD)		71.1
Key Metrics		
		adj.
MCAP (m)	£43.3	£43.3
Net Debt (Cash) (m)	£68.11	£68.11
EV (m)	£111.4	£111.4
52 Wk Hi	110p	66p
52 Wk Lo	85p	51p
Free Float	33%	33%
*Key Metrics FCF adj.		
	2019A	2020E
CPS (GBP)	11.08	10.73
CPS (Exp D) (GBP)	6.62	6.42
CPS (FD) (GBP)	6.62	6.42
P/CPS	11.56x	7.13x
P/CPS (Exp D)	19.33x	11.93x
P/CPS (FD)	19.33x	11.93x
Shareholders		
	> 3%	
Dr. El-Roussstom	17.7%	
HSBC GIBI Nom	13.2%	
Dinama Hldgs	7.6%	
Libank	7.0%	
D Waylett	5.8%	
I Ghandour	5.0%	
Total	56.2%	

Investment Case

Competitive background

ACE (ALSP) acquires and rents secondary assets largely in regional cities in the UK with over 50% of rental income from gilt-edged tenants. HM government and city councils' contribution to rentals have grown again, accounting for 59% of rental revenues FY19A vs. 51% FY18A and 60% FY17A. Major industrial and commercial companies account for the balance. ACE traditionally looks for two types of core opportunities – 1) end of life tenancies to provide rental uplift via change of use and, in time, capital appreciation and 2) longer-term tenancies (weighted average life of tenancy agreements is greater than 8 years) to underpin cash flows. This year ALSP has announced that it is also looking for entire portfolios to buy post Brexit, signalling a potential change in strategy.

The UK property market (commercial, retail and residential) has slowed in terms of the rate at which transactions are completed after the Brexit vote and this is now part of the landscape and may intensify after the end of October 2019. We don't expect any panic in the commercial property market (compared to the vote announcement, which was a market shock). In our view, property portfolios (as opposed to individual properties) attractive to ALSP may become available, as a result of Brexit. Management again performed very well operationally during FY19A, growing the business strongly, continuing to develop a good track record.

ALSP's active asset management strategy continues to prove value-generating in current market conditions.

● Progressive Dividend Policy

Dividend pay-out of 2.5p, double last year's 1.25p p/s.

● Funding Events YE19A

The Company has raised new equity GBP 1.983m via the conversion of GBP 1.179m of CLNs, the payment of GBP 117.87k CLN coupons (interest) using equity and the issue of 858k warrants at 80p. ACE has raised debt GBP 3.2m at 7% over a 2-yr term from existing investors and we forecast that ACE has agreed to extend its 10m CLN note by a further 2 years, on new terms - we forecast 6% interest, conversion to equity option, and or as a GBP 10m part payment toward the acquisition of properties for or from ACE.

● Use of funds

Purchase of eight properties for a total of GBP 32.95m generating 2.5m rental income or an average 7.6% rental yield.

Catalysts

Acquisition of new portfolios; uplift in rental yield through active management; Re-rating of the property sector; further funding activity via significant equity raise; Chaos due to Brexit.

Operational Strategy

ACE (ALSP) is a property investment company focussed exclusively on the UK property market and almost entirely invested in the commercial segment, with rental income dominated by gilt-edged government or government backed entities. The **value generator is** – rental income supported in turn by financing and asset appreciation.

- **Rental income** – ACE’s revenue line is entirely rental income derived from its wholly owned subsidiaries.

ACE’s strategy is to acquire properties that deliver high yield combined with the opportunity to create or capture capital value. The management team identify properties available for acquisition that create a balanced portfolio of opportunities with short unexpired tenancies and longer-term leases. Over 50% of rental income is from tenants such as HMRC (UK tax authority and collection agency) and local authorities. The short remaining tenancy periods lower acquisition prices commensurately, whilst providing the opportunity for change-of-use (rental uplift) in the near future in order to maximise the property value. The longer-term tenancies underpin future cash flows. ACE does not engage in property development and therefore is significantly de-risked compared with many property investment vehicles.

ALSP’s net debt/equity ratio has risen strongly reflecting the growth in rental income, the benefits of which fall through the P&L over 24 months from purchase of the properties. Net debt/equity FY18A 94% vs. 47% y/y (MCAP GBP 45.48m). The GBP convertible loan note (CLN) at 6% is quasi equity and would currently convey a 26% equity stake (14.035m shares) to the holder if converted. The dividend policy remains “progressive” with ACE paying out three times p.a., according to annual performance.

A rise in net debt/market equity to 157% up from 94% in our previous note and from 47% y/y reflects the very strong growth in future rental income (run-rate FY19E greater than GBP 6m).

(Net debt/shareholder equity FY19A is 517% vs. FY18A 285% as per front page metrics table).

Dividend grew 100% or 2x yoy to 2.5p p/s vs. 1.25p yoy.

Exhibit 1: ACE Liberty & Stone key operational metrics

GBP (k)	2016A	1H17A	2017A	1H18A	2018A	2019A
Investment property	29,488	28,499	38,979	49,378	58,222	88,323
gr% sequential		-3.35%	36.77%	26.68%	17.91%	51.70%
gr% y/y			32.19%	73.26%	49.37%	78.87%
Annual rental income	2,337	2,310	2,632	2,944	3,515	5,072
gr% sequential		-1.13%	13.92%	11.87%	19.38%	44.29%
gr% y/y			12.63%	27.44%	33.55%	72.26%
Rental income Qtrly	584	578	658	736	879	1,268
gr% sequential		-1.13%	13.92%	11.87%	19.38%	44.29%
gr% y/y			12.63%	27.44%	33.55%	72.26%
EAT Qtrly	65	244	241	109	90	203.6
gr% sequential		274.83%	-1.21%	-54.70%	-17.15%	125.46%
gr% y/y			270.28%	-55.25%	-62.47%	86.78%
Equity to owners	17,947	18,252	18,133	19,555	19,439	21,170
gr% sequential		1.70%	-0.65%	7.84%	-0.59%	8.90%
gr% y/y			1.04%	7.14%	7.21%	8.26%

Source: ACF Estimates; Company Reports.

Key Results Metrics

Exhibit 2:

ACF est. GBP (k)	2019A
Revenue	5,357
Forecast Delta	111
Delta %	2.1%
EBITDA	3,529
Forecast Delta	-616
Delta %	-14.9%
Net Income	815
Forecast Delta	147
Delta %	22.1%
FCF	4,708
Forecast Delta	2,978
Delta %	172.1%
CPS (diluted)	8.143
Forecast Delta	5.150
Delta %	172.1%

A series of strong forecast beats

Exhibit to the left shows the delivery by the company compared to our forecasts. The forecast delta describes how far the actual numbers based upon the reported numbers are above or below our forecasts. The delta % expresses the forecast delta in percentage terms.

Note that variances in our EBITDA, FCF and CPS forecasts are heavily subjected to changes in working capital, itself influenced by finance charges and the sale or purchase of properties and so lumpy timing differences.

Source: ACF Estimates; Company Reports.

Exhibit 3:

Adj. Metrics GBP (k)	2017A	2018A	2019A	2020E	2021E
EBITDA Adjusted	1,447	2,830	3,886	5,448	5,859
%Growth		96%	37%	40%	8%
%Margin	55%	81%	73%	88%	88%
EV/EBITDA adj.	77x	39x	29x	20x	19x
EV/EBITDA	105x	45x	32x	22x	20x
EBT Adjusted	1,505	571	1,116	2,356	3,657
%Growth		-62%	95%	111%	55%
%Margin	57%	16%	21%	38%	55%
NI Adjusted	859	541	1,172	1,958	3,001
%Growth		-37%	117%	67%	53%
%Margin	33%	16%	22%	32%	45%
EPS Adjusted	2.19	1.27	2.76	4.61	7.06
%Growth		-42%	117%	67%	53%
PE adj.	47x	80x	37x	22x	14x
PE	84x	236x	53x	27x	17x
EPS FD Adjusted	1.98	0.94	2.03	2.75	4.22
%Growth		-53%	117%	36%	53%
PE adj.	52x	109x	50x	37x	24x
PE	93x	321x	72x	46x	28x

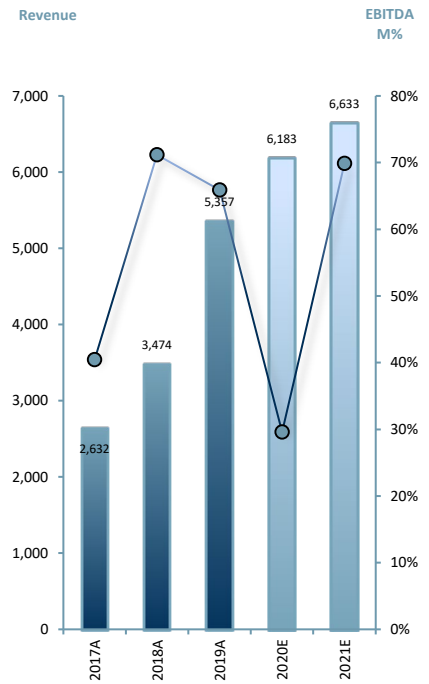
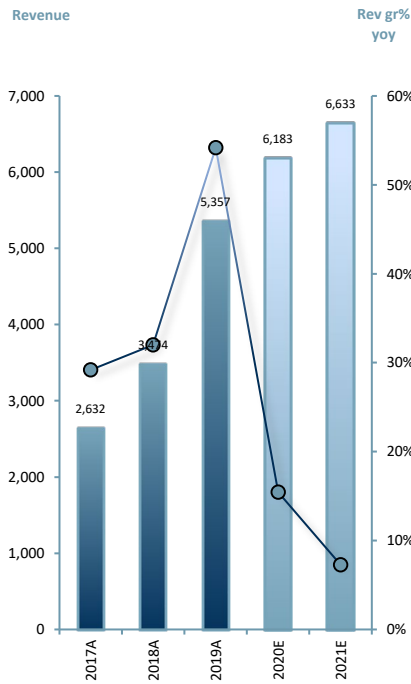
Source: ACF Estimates; Company Reports.

Forecasts 2-year annual

Revenue growth rate rises and declines aggressively in line with the lumpy nature of capital raising to expand the property portfolio and so rental income. Our long run rental growth rate base case assumes rents grow over time in line with long-run UK GDP growth.

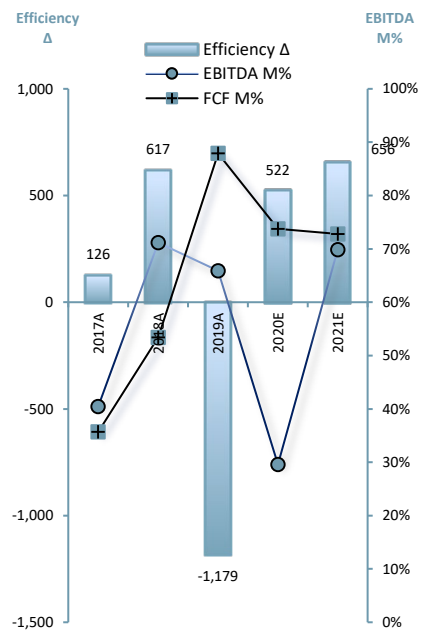
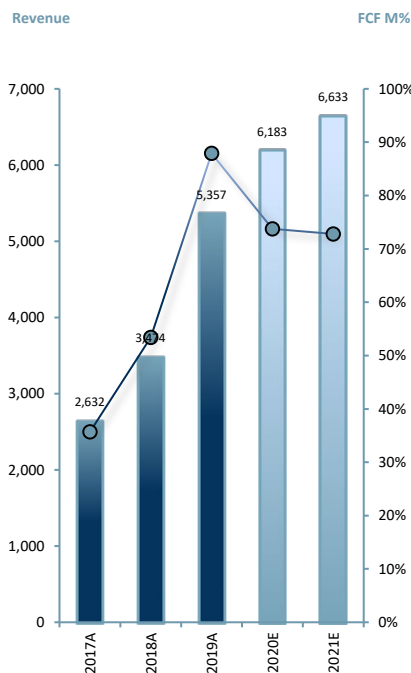
Note lines represent margins or growth in %.

Bars represent actual for forecast values for line item e.g. Revenues.



Note lines represent margins or growth in %.

Bars represent actual for forecast values for line item e.g. Revenues.



Our forecasts are based upon management guidance and our own sensitivity analysis. We focus on cash proxies (EBITDA) and free cash flow (FCF). However Net Income remains important in the property sector, nevertheless we are strongly of the view that only cash matters.

Financial Projections

P&L GBP (k)	2018A	2019A	2020E	2021E	2022E
Revs	3,474	5,357	6,183	6,633	6,756
gr%	32%	54%	15%	7%	2%
SGA	1,002	1,828	1,102	1,149	1,200
EBITDA	2,472	3,529	5,082	5,484	5,556
% Revs	71%	66%	82%	83%	82%
FV adj.	0	927	0	0	0
% Revs	0%	17%	0%	0%	0%
EBIT	2,472	4,456	5,082	5,484	5,556
EBT	214	759	1,990	3,282	3,647
% Revs	6%	14%	32%	49%	54%
ETR	14%	-1%	20%	20%	20%
NI	184	815	1,592	2,625	2,918
% Revs	5%	15%	26%	40%	43%
Adj EPS (p)	1.27	2.76	4.61	7.06	7.77
Basic EPS (p)	0.43	1.92	3.75	6.18	6.87
Diluted EPS (p)	0.32	1.41	2.75	4.54	5.05
Balance Sheet GBP (k)	2018A	2019A	2020E	2021E	2022E
Investments	50,488	79,538	97,075	112,075	137,075
Rev Yield	6.88%	6.73%	6.37%	5.92%	4.93%
Rev Yield 1 yr fwd	10.61%	7.77%	6.83%	6.03%	5.52%
Total Fixed Assets	50,488	79,538	97,075	112,075	137,075
Current assets	934	510	0	0	0
Assets held for sale	7,734	8,785	4,349	0	0
Cash	5,180	1,957	1,355	3,980	6,898
Total Current Assets	13,849	11,252	5,704	3,980	6,898
Total Assets	64,337	90,790	102,779	116,055	143,973
Creditors	1,240	4,833	5,579	5,985	6,096
Liabs held for sale	2,587	1,440	1,560	0	0
Deferred Tax	215	116	278	0	0
Loans	40,694	63,134	53,157	38,157	38,157
Total Liabilities	44,897	69,620	60,737	44,143	44,253
Net Assets	19,439	21,170	42,042	71,912	99,719
Share Capital	10,066	10,608	11,165	11,165	11,165
Accum. Profit/(loss)	1,152	775	2,367	4,992	7,910
Total Equity	19,439	21,170	42,042	71,912	99,719
Total Equity & Liabilities	64,337	90,790	102,779	116,055	143,973
Basic NAV (p)	45.7	49.8	98.9	169.2	234.7
Diluted NAV (p)	27.3	29.8	59.1	101.2	140.3
% LTV ALSP adj.	74.3%	56.1%	39.2%	20.7%	16.9%
Cash Flow GBP (k)	2018A	2019A	2020E	2021E	2022E
EBT Profit/(loss)	214	759	1,990	3,282	3,647
Finance costs	2218	3349	3092	2202	1909
FV adj. + Other adj.	0	-927	0	0	0
Cash Taxes	-337	-157	-398	-656	-729
WCap change	-280	1,983	-124	0	0
Net CFO	2,192	4,865	4,958	5,484	5,556
% Revs	1	1	1	1	1
FCFE	1,855	4,708	4,560	4,828	4,827
uFCF	3,374	6,151	7,652	7,030	6,736
Capex/Prprty Assets %	38%	36%	8%	13%	18%
CF from Financing	23,776	22,407	5,325	15,000	25,000
Net Cash In/(Out)	4,829	-3,223	-602	2,625	2,918
Cash previous YE	351	5,180	1,957	1,355	3,980
Cash & CE	5,180	1,957	1,355	3,980	6,898

Source: Company reports; ACF Estimates.

Notes [Intentionally Blank]

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